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Of Land, food, and scale

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The competing needs for infrastructure, agriculture, and scale could decide the success of The Asian century

According to a 2011 report by management consultancy McKinsey&Company titled “Urban world: Mapping the economic power of cities”, just 600 cities, with a fifth of the world’s population, account for 60 percent of global GDP. Cities in developed countries occupy 380 of the 600 spots, but the report predicts one in three developed region cities will fall off that list by 2025. 136 new cities will take their places, all of them from the developing world, with China alone accounting for 100 of them.

The positive correlation between city size and agglomeration benefits would explain the growth – and attraction – of megacities such as Shanghai, Seoul, and Mumbai, but policymakers would do well to pay attention to second-tier cities.

“The fortunes of Asian countries depend disproportionately on the larger cities or capital cities such as Jakarta in Indonesia and Manila in The Philippines,” says **Parag Khanna** of geostrategic advisory firm Hybrid Reality. Jakarta is responsible for over 20 percent of Indonesia’s GDP, while Manila accounts for nearly 30 percent of The Philippines’ output. Thailand relies even more heavily on Bangkok (33 percent of GDP) but all those numbers pale in comparison to Seoul, which generates a staggering 75 of South Korea’s GDP – “extraordinarily lopsided and dangerous”, Khanna warns.

“The infrastructure investment needs to go to the second-tier cities where the consequences of poor infrastructure are manifold: poor life expectancy, poor education, low labour productivity. You have almost no reliable data on labour productivity in second- and third-tier cities – the infrastructure is so bad there is no reliable way to measure it.

“Urbanisation is another way of saying people are moving into cities but it is not the same as saying these cities are ready for the people.”

Hunger games

Khanna made those remarks in a panel titled “Unfolding of the Asian century” at the recent Asia Pacific CEO Congress in Singapore. Public demand for infrastructure investment in Asia and particularly in Southeast Asia will continue to grow, Khanna says, because “this is by far the most populous region in the world”.

There are 4.3 billion people – 60 percent of Earth’s population – living in the Asia-Pacific region in 2013. As Asian economies continue to develop, the demand for food will grow in tandem.

According to the United Nations World Food Programme, the world produces more than enough food to feed the current global population of 7 billion people. One third of all food produced, which comes to 1.3 billion tons, is unconsumed and thrown away every year. Except for Laos, where there is “moderately high” prevalence of undernourishment (15 to 24.9 percent of the population), the Asia-Pacific region is relatively free of hunger.

However, **Prakash Jhanwer** of food processing company Olam International warns of another challenge as income levels rise: the demand for protein.

“When the per capita income goes up, the population takes more protein,” says Jhanwer, pointing to China’s per capita GDP, which has jumped from US$1047.5 in 2000 to US$7593.9 in 2014; in the same period, annual meat consumption per capita has gone from 37.8 kg to 49.8 kg – a nearly one-third hike.

"I think it’s a drastic overstatement when people forecast an Asian environment that is magically driven entirely by consumption and not by exports and industrial productivity." - Parag Khanna, Hybrid Reality

“You can imagine the protein intake increasing exponentially. It takes far more effort and land to produce one kilogramme of beef compared to producing one kilogramme of rice. That puts more pressure on the land.”

China’s building binge in the past 20 years on its fertile eastern coast has robbed it of valuable arable land, exacerbating the tension caused by competing demands of infrastructure and agriculture. However, Khanna says lesson have been learnt.

“China has created food import supply chain liabilities that it shouldn’t otherwise have,” Khanna says. “China has slowed down the use of arable land for city-building, which is a smart move. There are other areas in which to build cities. China has designated for city-building areas that are less agriculturally fertile.

“New technology has made it possible to boost agricultural productivity – the notion that there is an ironclad tradeoff between urbanisation and agricultural productivity is not really true. As a species, mankind is producing more food than ever even though the amount of arable land is decreasing.”

The Asian century

As countries in the region gear up for what has been termed “The Asian century”, questions have been asked regarding the region’s tried-and-tested export-led growth model. ASEAN’s largest economy, Indonesia, is largely consumption-driven, as is the region’s second most populous country, The Philippines. Further up north, China has been shifting away from the investment-led growth model in favour of consumption. Is export-led growth still relevant for Asia?

“I think it’s a drastic overstatement when people forecast an Asian environment that is magically driven entirely by consumption and not by exports and industrial productivity and so forth,” Khanna asserts. “Yes, Chinese exports as a percentage of GDP has fallen substantially but the number of jobs tied to exports is still in the hundreds of millions, and the same is true in ASEAN.”

He adds, “Also, there’s the supply chain integration within Asia. There is good data that shows that global supply chains in manufacturing are really intra-Asian supply chains. Where is all this industry going to go if not within Asia? A lot of intra-Asian trade is within manufacturing supply chains, and that volume is growing tremendously.”

In that respect, the ASEAN Economic Community (AEC) is precisely what ASEAN needs to strengthen co-operation in the face of global competition. However, plenty of work remains to be done.

“When you look at the AEC, there is progress and tariffs have been abolished but we all know there are plenty of barriers,” laments **Peter ter Kulve**, President, ASEAN and Australasia at consumer goods giants Unilever. “The custom systems are a mess, there is a lot of protectionism in the way customs are organised, and there is no free movement of labour. When a Singaporean bank wants to buy an Indonesian bank, it’s not possible,” says ter Kulve, referring to DBS’ failed takeover bid for PT Bank Danamon.

“Ultimately, an open market like it is in the U.S. drives competitive economic growth. All countries, on their own, just don’t have the scale to build up capacities to compete on the larger global market. China has the scale. U.S. has the scale. Europe has the scale. India, when it sorts itself out, will have the scale. We need to make sure that ASEAN will have it too, but for now the instinct is too protectionistic.”